

2. SOV 89-10077, Central Intelligence Agency, Office of Soviet Analysis, September 1989, *Gorbachev's Domestic Gambles and Instability in the USSR*



Directorate of
Intelligence

~~Secret~~
~~NOFORN-NOCONTRACT-~~
~~ORCON~~

Gorbachev's Domestic Gambles and Instability in the USSR ~~(U)~~

An Intelligence Assessment

This paper was prepared by Grey Hodnett, Office of Soviet Analysis. Comments and queries are welcome and may be directed to the Director of Soviet Analysis on 482-7170 or secure ~~██████ (U)~~

Reverse Blank

~~Secret~~
SOV 89-10077X
September 1989

2. (Continued)

~~Secret~~
~~NOFORN NOCONTRACT~~
~~ORCON~~

Gorbachev's Domestic Gambles and Instability in the USSR (U)

Key Judgments

Information available
as of 21 September 1989
was used in this report.

Gorbachev and other Soviet leaders are concerned about serious future breakdowns of public order in the USSR. This concern is well justified. The unrest that has punctuated Gorbachev's rule is not a transient phenomenon. Conditions are likely to lead in the foreseeable future to continuing crises and instability on an even larger scale—in the form of mass demonstrations, strikes, violence, and perhaps even the localized emergence of parallel centers of power. This instability is most likely to occur on a regional basis, not nationwide—although overlapping crises and a linking together of centers of unrest could occur ~~(C NF)~~

Instability in the USSR is not exclusively a product of *glasnost*, and some of it is indeed a sign—as Gorbachev asserts—that reforms are taking hold. But Gorbachev's claim that instability otherwise merely reflects the surfacing of problems that were latent or repressed under Brezhnev is only partly true. The current budget deficit and consumption crisis is largely due to policies Gorbachev himself has pursued since 1985. And the prospects for further crises and expanded turmoil in the future are enhanced by key policy gambles he is taking now:

- In the *nationality* arena, Gorbachev is gambling on defusing ethnic grievances and achieving a more consensual federative union through unrestrained dialogue, some concessions to local demands aimed at eliminating past "mistakes," a constitutionalization of union/republic and ethnic group rights, and management of ethnic conflict to a substantial degree through the newly democratized soviets.
- In the *economic* arena, Gorbachev is gambling that, by putting marketization on hold through the postponement of price reform, and by pursuing a short-term "stabilization" program, he can avoid confrontation with the public *and* reengage in serious economic reform without steep costs at a later date.
- In the *political* arena, Gorbachev is gambling that, by transforming the Communist Party from an instrument of universal political, social, and economic management into a brain trust and authoritative steering organ, while empowering popularly elected soviets, he can create a more effective mechanism for integrating Soviet society and handling social tensions. ~~(C NF)~~

~~Secret~~
SOV 89-10077X
September 1989

2. (Continued)

~~Secret~~
~~NOFORN NOCONTRACT~~
~~ORCON~~

Gorbachev has no easy choices, and other approaches would not necessarily be safer or more successful. But these gambles, understandable and even desirable from a democratic standpoint, are based on questionable premises and wishful thinking:

- The aspirations of many non-Russians will never be satisfied within the framework of maximum rights the Soviet leadership could grant union republics or so-called autonomous ethnic formations within national republics while still preserving a strong federative USSR. Allowing these people freedom to protest without being able to redress their basic grievances is a recipe for escalating crises.
- Because the deficit reduction plan is likely to fall far short of planned targets and because it is unlikely that supply can catch up with consumer "needs" without a price-induced change on the demand side, Gorbachev's emergency financial "stabilization" program more likely than not will fail. In the meantime, circumstances for introducing marketization of the economy will have become even less propitious than they were when this program was introduced, setting the stage for continued corruption, protracted economic crisis, and retreat to the old "command-edict" methods.
- Gorbachev's attempt to reform the Communist Party is based on a visionary notion of what it could become, and is in practice undermining its ability to integrate Soviet society before new political institutions are capable of coping with mounting popular demands unleashed by *glasnost* and failing economic performance.

As Gorbachev's various critics correctly contend, his gambles are likely to generate instability over both the near and the longer term. ~~(C N R)~~

The odds are high that labor unrest or ethnic strife will—perhaps even within the next six months—create strong pressures within the Soviet leadership to crack down much harder than it has to date. Soviet leaders have a broad range of instrumentalities they can employ to dampen instability, ranging from stronger threats, to new restrictions on human rights, to police intimidation, to imposition of martial law. We have evidence in at least one case of sharp disagreement within the Politburo over the use of violence. Gorbachev has sought to avoid widespread use of

~~Secret~~

2. (Continued)

~~Secret~~
~~NOFORN NOCONTR. ICT~~
~~ORCON~~

physical force, probably calculating that the fallout from repression would endanger his entire program of *perestroyka* as well as his foreign policy, while perhaps provoking more serious disorders that could lead to loss of control. Almost certainly he would be willing to escalate coercion somewhat to maintain order and isolate nationalist or other "extremists," as he threatened to do in his report on nationality policy to the Central Committee plenum on 19 September 1989. Yet beyond a certain point, repression *would* mean abandonment by Gorbachev of his natural constituency and his entire political program. There is some evidence that he might choose to resign rather than assume responsibility for a crackdown involving a major imposition of martial law. Alternatively, the imposition of harsh measures could be associated with a coup d'etat or legal removal of Gorbachev. ~~(S NF NC OC)~~

Provided he manages to hold onto power, two outcomes of Gorbachev's rule are possible, depending on how successfully the economy is marketized. In both scenarios, Gorbachev's retention of power depends upon avoidance of acute polarization of political forces and progress in reinstitutionalizing means of political integration. This process would be reflected in further democratization of the political order, the emergence of some form of multiparty competition, and a loosening of the Soviet multinational empire. If political reform were complemented by effective financial stabilization and marketization, there might be high instability in the near term (two to five years), but a course could be set toward long-term (10 to 25 years) social equilibrium. Without financial stabilization and marketization, on the contrary, there would be rising instability in the near-to-medium term, high instability in the long term, and likely movement of the Soviet system toward revolution, a hard-right takeover, or "Ottomanization"—growing relative backwardness of the USSR and a piecemeal breakoff of the national republics. ~~(S NF)~~

Gorbachev's gambles and the centrifugal trends they have set in motion are already viewed with extreme alarm and anger by many members of the Soviet political elite. But Gorbachev's major gains in the Politburo at the September 1989 plenum of the Central Committee demonstrated once again how difficult it is to translate conservative sentiment in the ranks into effective opposition to Gorbachev's rule at the top. For the time being, his power looks secure. If, somehow, a successful challenge were mounted against him over the next year or so, the most likely outcome would be a

v

~~Secret~~

2. (Continued)

~~Secret~~
~~NOFORN-NOCONTRACT~~
~~ORCON~~

traditionalist restoration that would attempt to "draw the line" in various areas—especially with respect to democratization of the party and soviets, *glasnost* in the media, the conduct of informal groups, and expression of "nationalist" views—but would accept the need for significant change, including reduction in military spending and decentralization of management. Unless such a regime chose to move ahead vigorously with marketization (not impossible, but highly unlikely) it would obtain possible stability in the near term but suffer high medium- to long-term instability, leading toward Ottomanization or upheaval from below. If Gorbachev were not overthrown in the near term, an attempt to turn the clock back would become more difficult—given the reaction of increasingly well-entrenched pluralistic forces—and could thus also be nastier, possibly involving the armed forces and taking on a xenophobic Russian nationalist coloration.

~~(C-INT)~~

Whether or not Gorbachev retains office, the United States for the foreseeable future will confront a Soviet leadership that faces endemic popular unrest and that, on a regional basis at least, will have to employ emergency measures and increased use of force to retain domestic control. This instability is likely to preoccupy Moscow for some time to come and—regardless of other factors—prevent a return to the arsenal state economy that generated the fundamental military threat to the West in the period since World War II. Moscow's focus on internal order in the USSR is likely to accelerate the decay of Communist systems and growth of regional instability in Eastern Europe, pointing to the need for post-Yalta arrangements of some kind and confronting the United States with severe foreign policy and strategic challenges. Instability in the USSR will increase uncertainty in the West about proper policies to pursue toward Moscow, reflecting nervousness about Soviet developments but nonchalance about defense, and will strain domestic and Alliance decisionmaking.

~~(C-INT)~~

Domestic policy successes or failures will be the paramount factor ultimately determining Gorbachev's retention of office, but foreign policy achievements that allow him to justify further cuts in military spending on the basis of a reduction in the external "threat" would give him more room for maneuver. Western actions that could be presented by his opponents as attempts to "take advantage" of Soviet internal instability could hurt Gorbachev. ~~(C-INT)~~

~~Secret~~

2. (Continued)

~~Secret~~
~~NOFORN-NOCONTRACT-~~
~~ORCON~~

By putting economic reform on hold and pursuing an inadequate financial stabilization program, Gorbachev has brought Soviet internal policy to a fateful crossroads, seriously reducing the chances that his rule—if it survives—will take the path toward long-term stability. Over the short haul, there appears to be lack of competence among his advisers in the area of monetary and fiscal policy. A more fundamental weakness in Gorbachev's strategy that will perpetuate instability is its hesitant approach to marketization and unwillingness to face up to the necessity of real privatization of ownership of capital stock and land. He and his advisers need help with economic theory. Reduction of instability over the long haul requires the steady extension of a law-based private sector. (CONF)

Harsh repression of labor unrest or of food riots in Russian cities are certainly contingencies that could require a response from US policymakers. But instability provoked by Gorbachev's gambles is likely to present its severest challenge to US policymaking through a crackdown in the ethnic arena—probably not in response to communal violence, but in the context of a move by Moscow to intervene in Russian-native clashes or to repress the drive for greater national autonomy. Such a crackdown is most likely in the Baltic region, but could also come in the Caucasus, Moldavia, or—down the road—even in the Ukraine. (CONF)

Gorbachev has said he wants to create a constitutionally structured federative union, and movement toward such a system would certainly be a positive development from the US perspective. Gorbachev, however, is *not* interested in greasing the skids for dissolution of the USSR, and this is precisely what acceptance of the more radical Baltic demands would imply. Unless Gorbachev is prepared to broker a special status for the Baltic republics, and is able to win necessary political support for such an arrangement, a direct and violent confrontation between Moscow and the Baltic peoples seems likely. (CONF)

2. (Continued)

~~Secret~~
~~NOFORN NOCONTRACT~~
~~ORCON~~

Contents

	<i>Page</i>
Key Judgments	iii
Scope Note	xi
Introduction	1
Nationality Policy Gamble: Concessions Within Limits	1
Economic Reform Gambles	3
Postponement of Price Reform	3
The Crash Budget Deficit Reduction, Resource Reallocation, and Consumption Program	4
Selective Structural Reform	5
Political Reform Gambles	6
Transformation of the Communist Party	6
Empowering Democratized Soviets	7
Implications	8
Stability	8
Political Outcomes	10
Implications for the United States	12

Reverse Blank

ix

~~Secret~~

2. (Continued)

~~Secret~~
~~NOFORN-NOCONTRACT~~
~~ORCON~~

Scope Note

This report offers a broad look at Gorbachev's domestic strategy and its implications for stability in the USSR. Descriptive sections of the report take into account the full range of classified and open-source information available, especially that dealing with Gorbachev's views, and are consistent with more detailed analysis produced by the Directorate of Intelligence. No systematic attempt is made to source the various judgments which, in the projective sections of the report, are based—as they are in all estimative writing—on a combination of extrapolation and logical inference. ~~(C NF)~~

The report is a speculative paper drafted by a senior analyst in the Office of Soviet Analysis. In a period of epochal change in the USSR, anticipating the future is a hazardous undertaking, and the issues dealt with in the report hardly invite unanimity of judgment. Although there are differences among analysts on specific issues, the report's conclusions do reflect our sense of the problems and challenges that confront Gorbachev's revolution and the general direction in which it is now heading. ~~(C NF)~~

Reverse Blank

xi

~~Secret~~

~~Secret~~
~~NOFORN NOCONTRACT~~
~~ORCON~~

Gorbachev's Domestic Gambles and Instability in the USSR ~~(S)~~

Introduction

Despite the increasingly pessimistic tenor of recent assessments in Moscow of Gorbachev's popularity and prospects, and rumors of coups or military intervention, his major gains in the Politburo at the September 1989 plenum of the Central Committee demonstrated once again great tactical political skill in transforming attacks against his line into movement forward. For the time being, at least, the future of *perestroika* would appear to be less dependent on political struggle in the Politburo than on faltering regime performance. ~~(C-NF)~~

Many factors will affect this longer term performance. A key one, however, is Gorbachev's broad sense of where he wants the Soviet Union to go and how he seeks to get there—which is the focus of this paper. Western analysts disagree over the extent to which Gorbachev has a set of stable long-term objectives. Like Soviet observers, they are also uncertain whether Gorbachev's stated objectives are always necessarily his "real" objectives. The premise of this paper is that, while his positions have evolved over time, Gorbachev does have a fairly coherent "vision" (but not a "blueprint") of the future that is revealed in both classified and unclassified sources. The existence of such a vision does not, of course, preclude tactical dissembling and ad hoc adjustment to circumstances. ~~(C-NF)~~

Gorbachev has insisted that the domestic revolution that he has launched in the USSR—which involves radically dismantling an existing system of more or less stable, if stagnant and poorly performing institutions—is the only path open. In fact, *perestroika*, *glasnost*, and *demokratizatsiya* were not and are not the only options open to the Soviet Union; they represent the ultimate gamble on Gorbachev's part that a liberal, reformed Communism is possible and that the destabilization brought by change is containable. While denying his own fundamental responsibility for instability, Gorbachev has claimed that some measure of it is a necessary corollary of reform. And, in fact, instability arising from certain types of change

undoubtedly is a sign of progress. Yet *glasnost* has accelerated the delegitimization of the present system. It has irretrievably destroyed the regime's capacity to use Marxist-Leninist doctrine as an instrument of political control. And it has weakened popular obedience to authority. ~~(C-NF)~~

Gorbachev is now embarked on a set of related gambles as he seeks to reform ethnic relations, the economy, and the general political system. These too are producing crises, on which Gorbachev hopes to capitalize to provide further momentum for *perestroika*. From these crises new instability will arise, with the key questions being: how serious will manifestations of this instability be, and what types of crackdown is it likely to inspire? To call Gorbachev's choices gambles, of course, does not imply that other approaches would necessarily be safer or more successful; in each case, the trade-offs are not easy. ~~(C-NF)~~

Nationality Policy Gamble: Concessions Within Limits

Establishing a framework for dissolution of the USSR is not on Gorbachev's agenda. Yet he does seek solutions to the nationality problem that enjoy legitimacy, are not simply imposed by Moscow, and obviate levels of repression that would wreck his overall policy of *perestroika*. The vision he has articulated over the past year or so—most recently at the September 1989 plenum of the Central Committee—encompasses:

- Transition of the USSR from a de facto unitary empire tempered by toleration of local boss rule to a more consensual union with real federative content.
- Constitutional delimitation of the functions of the Center and the national republics, with an increase in the authority allocated to the republics and some decentralization of operational powers within the Communist Party.

2. (Continued)

~~Secret~~

- Removal of discriminatory and provocative obstacles to the development of non-Russian languages and cultures, while preserving a strategic role for Russian as the language of interethnic communication.
- Equalization of the rights of all *nations* (including minor nationalities and Russians), balanced by equalization of the rights of *individuals* regardless of their place of residence.
- Integration of the national republics within a single unionwide economy, in which the "socialist market" harmonizes the interests of the multiethnic whole with the interests of the ethnic parts, but in which there is also some devolution of power to the republics. ~~(C-INT)~~

The Soviet leadership confronts two quite different types of ethnic crises: the assertion of traditional nationalist demands for greater cultural, political, and economic autonomy from the Center; and rage generated by economic and social grievances that finds an outlet in communal violence. In principle, the first type of crisis can possibly be resolved, if not through political dialogue (there are many forms of autonomy and even "independence"), then at least through a type of crackdown that does not involve physical force; whereas the second type requires physical repression—utilized in a context, of course, that invites more sympathy on the part of outside observers. ~~(C-INT)~~

In nationality policy, Gorbachev's gamble lies in the scope he has permitted for public expression of ethnic grievances and demands. He has acquiesced in a mushrooming of "informal" organizations in the non-Russian republics that, by any standard, are articulating "nationalist" views. He has tolerated substantial absorption of ethnic platforms by republic Communist Party organizations. With some exceptions, he has sought to resolve nationality problems through dialogue and has generally exercised restraint in repressing communal violence or pronational ethnic demonstrations. Indeed, there is some evidence that Moscow may be willing to go very far to meet Baltic demands, provided there is no deviation from the Center's line on foreign policy, defense policy, and—perhaps less categorically—financial-monetary policy.

~~(S-NF-NE-OC)~~

Gorbachev is evidently convinced that the potential exists for the emergence of a broadly shared sense of genuine unionwide community among most Soviet citizens. Ethnic instability, he seems to believe, arises basically from past policy mistakes and mismanagement. Thus, ethnic unrest can eventually be moderated if these errors are corrected and legitimate ethnic grievances addressed. He has issued several stern warnings against "nationalism." At the September 1989 plenum of the Central Committee he observed that "the time has . . . come to talk with the clear and forcible language of law about conditions under which nationalist, chauvinist, and other extremist organizations can and should be banned and disbanded by the court." But he probably believes that attempts to "draw the line" through coercion are likely to trigger still higher levels of ethnic tension and play into the hands of opponents of *perestroika*. And he seems to be counting heavily on the reconstituted political institutions of the USSR—especially the empowered Supreme Soviet and local soviets—to provide a mechanism through which ethnic interests and demands can be accommodated. He may hope to promote a coalition between reformers in Moscow and moderates in the non-Russian republics. In the Baltic area, he appears to have gambled that prudence will triumph over passion; that republic party leaders will be able to convince the population that Moscow *will* ultimately resort to force if compelled to do so, and that the republics should not—in a reckless lurch toward secession—risk what they now stand to gain. ~~(C-INT)~~

However, the radicalization of ethnic demands and expansion of the mass popular base for ethnic assertiveness we see occurring, as well as the entrenchment of communal violence, suggest how tenuous the prospects are for Gorbachev's strategy. Lifting the lid on the nationalities has energized anti-Russian sentiments among the titular nationalities after whom the republics are named, created great anxiety among the Russian settlers who constitute large fractions of the population in major cities in these republics, and opened a path for cross-republic ethnic strife. It has also activated latent conflict between titular and small

~~Secret~~

~~Secret~~

nationalities, produced a flow of more than 340,000 internal refugees since 1987, and set the stage for a potentially sharp Russian backlash against Gorbachev's "permissiveness." In at least one case, Lithuania, it is possible that the republic party organization may proclaim its independence of the CPSU. While security and economic interests probably will constrain some of the titular nationalities from seeking to secede from the USSR, these inhibitions may not apply to Balts, Belorussians, and Ukrainians. ~~(C NF)~~

Economic Reform Gambles

In the economic reform area, Gorbachev's vision postulates creation of a self-regulating "socialist market" system in which central physical planning has been largely eliminated and enterprises make decisions essentially by responding to market forces. Decision cues are provided by prices set largely by supply and demand, and inputs are acquired through direct contracts and wholesale trade. In this system the state plays a coordinating role, sets the "overall normative framework," and takes the lead in promoting science and technology, infrastructure development, environmental protection, establishment of a financial-banking-tax system, enactment of antimonopoly measures, and institutionalization of the entire system within a structure of law. Operational control would pass from middle levels of the bureaucracy to the basic production unit, reflected in (a) a breakup of large economic conglomerates and a transfer of control from the economic bureaucracy to production collectives (especially through leasing), and (b) democratization of enterprise management, in which workers' collectives elect their managers and oversee key production decisions. The "socialist" aspect of this postulated system would apparently consist of two features: retention and expansion of a strong welfare state component (Sweden is mentioned as an example to emulate); and continued public ownership of at least most land and capital stock, although leasing and other arrangements would substantially modify the concept of property. ~~(C NF)~~

Gorbachev's own policies, however—including the steep reduction of revenues from state alcohol sales, the financing from the budget of the crash machine-building program, wage boosts for some categories of

workers, increased spending for social programs, and escalating food subsidies—generated a rapidly rising budgetary deficit and shortage of consumer goods sufficiently ominous to persuade him in 1988-89 to agree to a "stabilization" strategy for the next several years. The main elements of this strategy are (a) postponement of retail and wholesale price reform; (b) the adoption of a crash budget deficit reduction, resource reallocation, and consumption program; and (c) continued pursuit of selected elements of structural reform. This change of course has brought Soviet domestic policy to a fateful crossroads. ~~(C NF)~~

Postponement of Price Reform

Gorbachev's statements through mid-1988 strongly favoring price reform make it abundantly clear he understands that full transition to an economy in which financial calculations effectively determine decisionmaking depends on price reform. Nevertheless, he has publicly and repeatedly committed himself since then to postpone retail price reform "two or three years," to discuss it with the public before doing anything, and not to change prices without public consent. In the absence of retail price reform, planned hikes in wholesale prices would require increased state subsidies that would add to the financial imbalance Moscow is fighting to bring under control, and Gorbachev has also delayed these increases indefinitely. There is no mystery why he has agreed to this critical policy position: to proceed with price reform at this point would also have been a difficult gamble. Gorbachev and his advisers were deterred by the prospect of having to cope with a possibly violent popular response to price increases, hoped to buy social peace, and convinced themselves that conditions to move on prices would be more propitious later once financial "stabilization" had been achieved and hyperinflation averted, the monopoly factor dealt with, and other steps taken. ~~(C NF)~~

The costs of this gamble are likely to be enormous. By largely postponing the establishment of the indispensable prerequisite for economically rational decision-making, the gamble blocks workable decentralization, the introduction of genuine wholesale trade, and

~~Secret~~

2. (Continued)

~~Secret~~

reliance on financial levers—thus effectively putting marketization on hold irrespective of other important constraints. Failure to deal with wholesale prices will intensify the problems and costs in the future of currently underpriced nonrenewable resources (especially energy and minerals). It will also build further irrationality into investment and the stock of fixed capital, imposing still higher economic and social costs downstream for corrective actions. Subsidies to agriculture will also have to rise. ~~(C-NF)~~

On the retail side, Gorbachev's *talk* about price reform has been an invitation to the population to increase hoarding of consumer goods. The longer retail prices are frozen, the more the pattern of consumer demand is distorted, as faulty signals mislead producers and consumers. If food sales increase, so will food subsidies. Most important, delay may make the ultimate problem of dealing with retail prices that much more intractable: prices that might only have had to be doubled, let us say, may—with delay—have to be quadrupled. Meanwhile, the postponement of retail and wholesale price reform will expand corruption throughout the economy, producing an adverse effect on popular morale and public tolerance for *perestroika*. ~~(C-NF)~~

The Crash Budget Deficit Reduction, Resource Reallocation, and Consumption Program

In the period 1981-85 the average annual budget deficit was 16.7 billion rubles. This figure rose to 58.7 billion rubles in 1986, 72.9 billion in 1987, 90.2 billion in 1988, and a CIA-projected 126 billion in 1989. Alarmed by the growing financial imbalance in the country, the Soviet leadership has approved an "emergency" program to reduce expenditures on investment,¹ defense, subsidies to unprofitable enterprises, administrative costs, and social programs, and to increase revenues from imports of consumer goods, turnover taxes on increased production of consumer goods, and social insurance payments. There is discussion of financing the deficit, in part at least, through the sale of state securities and bonds bearing an interest rate of 5 percent. The strategy has also

¹ State centralized investment for "productive" uses in 1990 is to be 30 percent less than the target for 1989, and for some sectors of heavy industry the reduction is to be 40 percent. ~~(C-NF)~~

accelerated conversion of defense industry for civilian production, mandated a crash expansion of consumer goods production by all branches of industry, and reversed signals by accepting the recommendation to initiate increased imports of consumer goods. Gorbachev's hope is that he can "saturate" the consumer market, mop up some of the huge cash savings of the population, eliminate shortages, avert hyperinflation or "barterization" of the economy, head off popular unrest, and create equilibrium conditions under which it will be possible later to initiate full marketization. ~~(C-NF)~~

Yet it is highly likely that deficit reduction will fall far short of planned targets. It will be hard to impose investment cuts on ministries and republics, and there is pressure—expressed already through the Supreme Soviet—to block delays in the implementation of social programs. Inflation itself will begin feeding back to raise the level of government spending. Moreover, gains in projected revenues from turnover taxes are based on unrealistically high targets for the production of consumer goods, and subsidies for agriculture and other consumer goods will remain a major drain on the budget. ~~(C-NF)~~

There are other problems with the "stabilization" formula. Without a price-imposed change on the demand side, it is unrealistic to hope that supply can catch up with consumer "needs." The across-the-board campaign approach—implemented through the very "command-edict" methods that Gorbachev says he deplores—is likely to result in inferior products, high costs, and waste. Expansion of consumer-goods imports will impose still greater stress on Soviet hard currency reserves, force acceptance of higher levels of indebtedness, and defer imports for other sectors of the economy. At the same time, fear of the economic and political consequences of a higher hard currency debt, and recognition that imports would have to be far greater to substantially diminish the savings "overhang," are likely to inhibit consumer-goods imports as a central component of financial stabilization. On the investment side, radical, abrupt shifts in proportions historically have—by ignoring the interdependence of different economic sectors—wasted

~~Secret~~

~~Secret~~

resources and thrown the losers into a tailspin. It is not inconceivable that the magnitude of cuts projected in heavy industry could generate a chain reaction of producer-good supply shortages, leading to a spiraling downturn in production in the economy. (C-~~MF~~)

Selective Structural Reform

Gorbachev has by no means acknowledged that his decision on prices and macroeconomic "stabilization" puts economic reform on hold. He talks as if he wishes to move ahead. At the September 1989 plenum of the Central Committee he called attention to forthcoming discussion by the Supreme Soviet of draft fundamental laws on ownership, land, leasing, republic economic rights, the local economy, self-management, and taxation. And, in fact, there is momentum to press forward with implementation of the 1987 Law on the State Enterprise and elements of reform that are preconditions of marketization, such as expansion of enterprise rights in setting prices, wages, and output levels; partial derationing of industrial supplies; and reduction in the number of plan indicators. In the absence of rational prices and other essential conditions, however, these steps have the perverse effect of promoting arbitrary or monopolistic price increases rather than cost reduction, wasting "cheap" energy and raw materials, encouraging wage increases not matched by productivity gains, and motivating enterprises to produce the wrong output mix. The devolution of some economic decision making authority from the Center to the republic and regional levels, which is also being conducted under the rubric of economic "reform," can have some beneficial effects, but risks simply transferring "command" methods from the State Planning Committee to local bureaucrats and strengthening autarkic tendencies that weaken overall marketization. (C-~~MF~~)

A Gorbachev initiative with serious long-term implications has been the fostering of new forms of "ownership" and management of production units. Gorbachev believes that the establishment of *proprietary* interest is a basic key to economic revitalization and that this condition cannot be achieved under the present depersonalized state ownership of the means of production. Thus he is pushing strongly for acceptance of the proposition that "various" forms of ownership are legitimate under "socialism." Yet, at

the same time, he has sharply attacked Western-style private ownership of the means of production, equating this with "exploitation." Although he supports cooperatives, the solution to this ideological dilemma, he emphasizes over and over, is the *leasing* of capital stock and land to production collectives. He has in mind not just agriculture and services, but large chunks of industry. He clearly hopes that leasehold property "ownership" will engender proprietary interest, combat monopoly, and defeat bureaucratic sabotage of *perestroika*—while avoiding the supposed adverse social consequences of real privatization. In the not too distant future it is quite possible that Gorbachev will unleash a big campaign to shift the economy to leaseholding, despite resistance to it by Yegor Ligachev and perhaps other members of the Politburo. (S-~~MF~~ NC OC)

The difficulty with Gorbachev's calculation is that experience in both Eastern Europe and the West suggests that leaseholding does *not* produce the same positive benefits as private ownership, although in certain limited situations the results may be useful. Leaseholding does not provide the basis for creation of a true capital market, with the sale and purchase of production assets. Thus market prices for capital and land cannot emerge. Prices for these resources would still have to be set by planners and could not reflect particular circumstances or changes in values over time. Nor does leaseholding create the same interest or empowerment of specific individuals to seek to increase the value of enterprise assets. On the contrary, it may well make required investment and structural rationalization decisions more difficult by encouraging leaseholders of state-owned property simply to "mine" their assets—diminishing the economy's production capacity over time. (C-~~MF~~)

Possibly Gorbachev recognizes these problems and sees leaseholding as an ideologically defensible "cover" for a longer term transition from collective to private ownership. Reporting [REDACTED] suggests, however, that he really does reject *large-scale* private ownership on ideological grounds and believes that leaseholding provides a workable "socialist" alternative. His attacks on private ownership

~~Secret~~

2. (Continued)

~~Secret~~

have been complemented by hedging in his defense of cooperatives. By making these politically convenient accommodations to the dominant collectivist preferences of Soviet elites and the population, at a time in which the absence of legally regulated markets is spawning growing corruption throughout the decentralized sector of the economy, Gorbachev is reinforcing strong impulses that exist to reassert "administrative" controls over the economy. ~~(S/NF/NO/OC)~~

The collectivist predicament carries over into the sphere of management. Gorbachev has vigorously supported workplace democratization, including the election of managers, as a means of breaking resistance to *perestroika* within the bureaucracy and overcoming alienation and apathy among the work force. The principle of electivity of managers was codified in the Law on State Enterprises, adopted in July 1987. In combination with collective leaseholding, however, workplace democratization would appear—potentially at least—to be setting the Soviet Union on the Yugoslav path. It will probably discourage investment by enterprises, encourage unjustified wage increases, make it harder to broaden wage differentials, strengthen pressures to continue subsidizing enterprises operating at a loss, and promote inflation. ~~(C/NF)~~

Political Reform Gambles

Drawing on the experience of earlier economic reform efforts, Gorbachev has argued that economic reform will fail unless it is underpinned by political reform. Since 1987 he has promoted political reform as the key to *perestroika*. His aim is to replace the traditional Stalinist system of political power with an entirely new structure that is less centralized, more democratic, more open to the unrestricted flow of political ideas and information, more "constitutionalized" through fundamental law, and more protective of the citizen's civil liberties. The key changes are those affecting the demarcation of functions and power between the party apparatus and the popularly elected soviets.

~~(C/NF)~~

Transformation of the Communist Party

In the existing Soviet system the Communist Party has provided the central mechanism of political integration. Under its aegis, acting more or less collegially

through bureaus selected co-optatively at all levels of the party, representatives of the system's key institutions (the economic hierarchy, the soviets, the security organs, and—especially—the party's own bureaucracy) have decided policy. In this system the party bureaucracy—the "apparatus"—has itself routinely exercised the right to issue binding orders to officials in all other bureaucracies. It has also controlled the process of personnel appointments to all leadership posts in all institutions, whether these posts are appointive or nominally "elective," through the *nomenklatura* system. Below the central level, the key function actually performed by the party apparatus has been to *implement* rather than make or win converts for policy. Its most important role in this respect has been to cope with inconsistencies between enterprise production targets and available inputs caused by incoherent economic plans. (This is why top positions in the party apparatus, at least in the Russian Republic, have generally been staffed with engineers.) The real role of the army of "ideological" functionaries in the party has been not so much to *argue* the party's position and build party "legitimacy," as to communicate what the party leadership's position is on various issues. The problem of party "authority" until recently was not particularly germane, because there was no political competition, few people were prepared to challenge the party line, and those who did were handled by a different bureaucracy—the KGB. ~~(C/NF)~~

Gorbachev appears to believe that the party should continue to integrate the entire Soviet system ("perform its vanguard role"). He has an altogether different vision, however, of how this function is to be performed. In his view, the party should abandon its de facto executive and legislative activity. It should:

- Cede rulemaking power to the soviets and other state or public organizations.
- Stop issuing binding orders to all other organizations.
- Curtail dictation of personnel appointments through the *nomenklatura* system.
- Remove itself from day-to-day involvement in the implementation of economic plans.

~~Secret~~

Secret

At the same time, the party should strengthen its "political" role by:

- Serving as a brain trust at all levels to generate appropriate macropolicies.
- Winning authority for the party and its line by force of persuasion in the emerging competitive political arena.
- Influencing elections and personnel appointments in all institutions by cultivating and presenting the "best" candidates.
- Incorporating the interests of all strata of the population through broad external dialogue and internal party democratization. (C-NT)

Gorbachev is, in fact, attempting to implement this model. He has weakened the Central Committee Secretariat and may be reaching policy decisions in an informal group outside the Politburo. He has eliminated the branch economic departments in the apparatus—the organizational base for day-to-day party intervention in the economy. He has ordered party officials to exert influence through persuasion rather than command. He has attacked the *nomenklatura* system as prone to error and the perpetuation of mediocrity. He is urging party leaders at all levels not to wait for instructions from above but to develop their own "action programs." He is demanding that all party officials emulate his own example and carry the case for *perestroika* to the population through the mass media. He is promoting competitive elections within the party. And he is instigating personnel cuts in the party apparatus and a large-scale turnover of party cadres, to which he attaches great significance. (C-NT)

Essentially, Gorbachev's program implies the liquidation of the CPSU as it has existed and the creation of an organization that is new in its functions, structure, personnel, and relationships with other parts of the Soviet system. Through this transformation the party is to regain both the will and the legitimacy to rule. Were such a metamorphosis to succeed, it could in principle create an integrating vehicle compatible with democratized soviets and other elective organizations. It would also clear away resistance in the party apparatus to *perestroika*. (C-NT)

The odds against the desired transformation of the party, nonetheless, are formidable. Exhortation to exert influence through persuasion is unlikely to give the party enough moral authority to compensate for loss of the operational power to issue orders and dictate personnel appointments. It is questionable whether purging the party apparatus will increase its ability to operate in a competitive political environment as much as Gorbachev seems to hope. *Pravda* complained editorially in June that "a considerable part of the party apparatus is in total disarray and is unable to find its bearings in the new situation." And it is difficult to identify, beyond presumed psychic rewards, what the payoffs are to be that will motivate party officials. Rather, the odds seem much higher that Gorbachev's strategy will simply undermine the real-life CPSU, weaken its ability to bring order to a still nonmarketized economy, increase uncertainty as to its role, further demoralize both cadres and rank-and-file members, and intensify the already high level of anger of the apparatus toward Gorbachev. (C-NT)

Empowering Democratized Soviets

Gorbachev is banking heavily on the soviets being able in a timely and effective manner to fill the vacuum created by his redefinition of the party's role. What he seeks is a mechanism that enjoys legitimacy, is sensitive to pressures from below, is able to reconcile conflicting popular interests and demands, is capable of controlling officialdom, and is nevertheless responsive at least in general terms to party guidance. With the election of the new Congress of People's Deputies and formation of the Supreme Soviet, the first meeting of the Congress in June and subsequent session of the Supreme Soviet, and the upcoming elections to local soviets in the fall, Gorbachev has launched Soviet politics on a promising but perilous path. (C-NT)

We should not exclude the possibility that this venture will eventually succeed. Much of the brief experience of the Congress and new Supreme Soviet—especially

2. (Continued)

~~Secret~~

the emergence of a new corps of middle-class politicians, the frank discussion of formerly taboo topics, the role of deputies in helping to solve the miners' strikes, and the rejection of some nominees to the Council of Ministers—provides grounds for hope. But the politicization of the Soviet population, the urgency of public needs, and the radicalization of demands made by the rapidly growing number of "informal" groups will impose severe strains on these new institutions. Tolerance and compromise are not yet part of the political culture of either the new Soviet electorate or the new deputies. Political competition in this arena, contrary to Gorbachev's calculations, may work against the establishment of market socialism. Conflicts generated over ethnic issues will be bitter. A "hardhat workers" politics of unpredictable orientation may emerge. The new institutions currently lack most of the operational attributes of functioning democratic parliaments that help them to conduct business and deal with such pressures, and these can develop only with time. (C-NE)

Whether multiparty political competition will emerge as the new soviets evolve is a critical issue. With the formation of the "Interregional Group" of deputies, the collective action of Baltic deputies, and the caucusing of "workers' deputies," organized *opposition* has already arrived in the Supreme Soviet. Some participants in these groups visualize the rapid emergence of multiparty politics. And several groups outside the Supreme Soviet—for example, the Christian Democratic Union, the Social Democratic Association, the Democratic Perestroika Club, and the various ethnic fronts—are already organizing as political parties, or plan to do so. (C-NE NC OC)

It is conceivable that Gorbachev privately welcomes the prospective emergence of multiparty competition as a long-term stabilizer of the USSR's new mass politics. In this scenario, he might hope simply to preserve the Communist Party's *de jure* monopoly long enough to effect the transfer of real power from the CPSU to the Supreme Soviet, at which point traditionalists in the party would be unable to prevent recognition of a multiparty *fait accompli*. It is more likely, however, that—as he told Hungarian leaders Nyers and Grosz in July—he is prepared to accept multiparty politics in Hungary but does not want such

a system established in the USSR. Publicly, he has repeatedly criticized advocacy of multipartyism in the Soviet Union—arguing that this would multiply cleavages in an already "complex" society and, most important, would promote ethnic strife. In this scenario, he would be aware that his invitation to informal groups to participate in parliamentary politics could lead to the formation of other parties, as Nikolay Ryzhkov and others have warned, but planned to maintain the CPSU's preponderant role by somehow taming or co-opting the main opposition groups. (C-NE)

In the meantime, as Ryzhkov has also observed, the creation of the new activist Supreme Soviet headed by Gorbachev introduces an element of profound ambiguity in the distribution of power and authority between the CPSU Central Committee and Politburo, the Supreme Soviet, and the Council of Ministers at the very top of the Soviet system. When local elections are held and empowered soviets formed at all lower levels, this ambiguity will spread throughout the system, potentially setting the stage for a generalized "constitutional" crisis. Large numbers of party secretaries are likely to be defeated in these elections. To the extent that election by the populace to the respective soviet is seen to be a necessary validation of a party secretary's tenure of office, political reform will sharply heighten anxiety and promote cleavage within the party apparatus. Gorbachev probably hopes to use the crisis resulting from elections to the soviets to redefine formally, both constitutionally and through revision of the party rules, the division of labor and respective powers of party, state, and government organs. (C-NE)

Implications

Stability

Gorbachev's vision of a liberal Communist future seeks to reconcile satisfaction of ethnic demands with preservation of the Soviet multinational state, piecemeal introduction of marketization with "socialism," and democratization with maintenance of the Communist Party's "vanguard role." Minimizing bloodshed has been central to his tactics. His desire to avoid

~~Secret~~

~~Secret~~

major confrontation with the population and to find "political" solutions to problems is reflected in his encouragement of politicization of the population and tolerance of social turbulence; his readiness to interpret hostility toward the Communist Party and the Soviet system as a product simply of failure by the regime to eradicate past "mistakes"; his propensity to ignore ideological "provocation"; his optimism about reaching the "correct" solutions to problems through rational calculation, dialogue, and compromise; and his disinclination to use force or administrative pressure. (C-NT)

These qualities are reflected in the gambles discussed in this paper, which in turn are generating major problems:

- In the *nationality* arena, *glasnost* and Gorbachev's gamble on defusing ethnic grievances and achieving a more voluntary federative union through dialogue is activating passions on all sides, stimulating a serious secessionist challenge, and fueling an imperial backlash.
- In the *economic* arena, Gorbachev's gamble on postponement of price reform, a crash consumption program, and selective pursuit of certain structural changes has placed real marketization on hold, mortgaged its introduction to a financial stabilization program that is more likely than not to fail, possibly compromised its eventual success with strictures against private economic activity, and set the stage for continued corruption and protracted economic crisis.
- In the *political* arena, Gorbachev's gamble on reconstituting the Communist Party along lines that have no parallel in single-party (or multiparty) systems elsewhere is seriously weakening the central existing mechanism for societal integration in the USSR, while the gamble on instituting guided democracy through the soviets is likely to impose large new strains on the regime sooner than it provides an effective means for dealing with them.

Gorbachev has no easy options, and other gambles would have produced other problems. Wherever those problems might have led, the set of problems Gorbachev has in fact fostered is likely to lead in the foreseeable future to major instability in the USSR. (C-NT)

So far, neither the rioting, nor the communal violence, nor the demonstrations that have occurred in the non-Russian republics have compelled Gorbachev to resort to more than limited doses of armed repression. The most violent conflicts have largely not involved natives versus Russians. However, with the escalation of ethnic assertiveness generally since 1988, the radicalization of Baltic demands, and the growth of Russian nationalist sentiment, the stage is being set for major Russian/non-Russian conflict. Potentially, the most explosive near-term source of such combustion is the backlash of large numbers of Russians living in the borderlands to native attempts to assure priority of the local language, residency requirements for political participation, and progress toward autonomy or even independence. The fears now displayed among Russians in the Baltic republics and Moldavia could lead spontaneously to confrontations that would require large-scale intervention by Moscow. But they also provide fertile soil for provocation by Gorbachev's opponents designed to force broad intervention that would undermine *perestroika*. At some point, even in the absence of settler-instigated conflict, native assertiveness is likely to precipitate confrontation with the Center, however self-disciplined the non-Russians may be. One factor that could lead to such a clash might be Moscow's determination not to allow relaxation of controls in the Baltic republics to set a precedent for the Ukraine. (C-NT)

Gorbachev has sought to replace Brezhnev's tacit understanding with the population, which essentially provided a guaranteed minimum living standard and social security benefits in return for political passivity, with a new "social contract" that would provide greater economic opportunity and political participation in exchange for harder work and less economic security. But his economic gamble is unlikely to generate the sustained growth in material rewards necessary to support such a transition. At best, the policy will stabilize a deteriorating situation; if it fails, the result could be hyperinflation and the emergence of a barter economy. And the policy still leaves the economy in a state of protracted vulnerability to at least three generators of an economic downturn that

~~Secret~~

2. (Continued)

~~Secret~~

would further enhance the likelihood of street politics: the incoherent current blend of "plan" and "market"; the possible chain reaction of producer-good supply shortages noted above; and—not least—major strike activity. (C NF)

Gorbachev was able in July to deflect blame for the miners' strikes and turn them to his own immediate advantage, but only by granting major concessions to the miners that will increase the deficit and may well encourage more groups to use ultimatum politics.

[REDACTED] Heady from their success, organized miners are spearheading formation of a mass labor movement, which might develop widespread support among workers who want the security of the old social contract as well as the improved quality of life perestroika promises. (S NF NC OC)

Glasnost, the evaporation of fear of authority, and Gorbachev's attempt to mobilize popular pressure against bureaucratic vested interests have—in combination with consumer dissatisfaction and diffuse public anger toward the Establishment—tapped latent impulses and energized political moods at the base of Soviet society. The old "transmission belts"—especially the trade unions and Komsomol—that integrated the "masses" with the regime have, in the new competitive environment, become increasingly irrelevant. Elections to the Congress of People's Deputies revealed how little confidence the party apparatus itself enjoys among the population at large. Gorbachev's gamble on radically restructuring Soviet political institutions is further weakening the old mechanisms that repressed popular unhappiness. (C NF)

Opinion polls and abundant evidence from other sources suggest that the public's priority concern is improving the standard of living. To the extent that the new Supreme Soviet and local soviets act as vehicles for absorbing mass unrest, they are likely to press for welfare spending, wage increases, subsidies for unprofitable enterprises, delay of price reform, and other measures that will increase the difficulty of moving toward effective marketization. In this sense, the phasing in of political reform before economic reform may have severe long-term costs. (C NF)

But political competition encouraged by reform is giving voice to other concerns as well: about public order, crime, loss of control in the borderlands, environmental destruction, erosion of traditional values, elite corruption, and profiteering by cooperatives. This volatile mixture of grievances could, under conditions of continuing consumer deprivation, lead to outbreaks of anarchic violence or provide a social base for attempts by political elites to reverse Gorbachev's policies. (C NF)

Political Outcomes

Gorbachev's gamble on a protracted transition to marketization, unless modified, is likely to delay serious economic revitalization indefinitely and create conditions of chronic instability irrespective of the destabilizing impact of ethnic conflict. Under these conditions, governing the Soviet Union will become progressively more difficult. Yet the fragmentation of political power currently under way will probably continue. Within the party, divisions now visible pitting natives against Russians within the republics, republic party organizations against other republic party organizations and against the Center, RSFSR oblast party organizations against the Central Committee apparatus, and liberal against traditionalist factions, will expand. And Gorbachev's personal authority within the party and among the population at large will probably continue to decline, despite his political victory at the September plenum of the Central Committee. (C NF)

Some observers have speculated that anarchy will be the end result of these developments. This is a highly unlikely outcome: if "anarchy" does occur, it will simply mark the transition from one set of political arrangements to another. What is likely is that instability will force the Soviet leadership to choose from an array of crackdown measures, ranging from stronger threats, to new restrictions on freedom of speech and assembly, to bans on strikes, to personnel purges, to exertion of economic pressures, to police or military intimidation, to deployment of larger and more aggressive security forces, to declaration of states of emergency, to imposition of martial law. Choices here

~~Secret~~

~~Secret~~

will hinge partly on how threatening to regime survival conditions of instability are judged to be, partly on how effective in suppressing disorder given types of crackdown are predicted to be, and partly on how counterproductive the crackdown measures are held to be in terms of frustrating attainment of other key objectives. (C-NF)

The record suggests that Gorbachev has a high tolerance for disorder, will seek as long as possible to find compromise solutions, and, when decisive action becomes necessary, will attempt to select measures at the lower end of the crackdown scale. He seems to fear that bloodshed resulting from a crackdown would seriously exacerbate conflict situations; he probably has not been impressed by the efficacy of force applied in Central Asia and the Caucasus; and he must fear the consequences for *perestroika* and his foreign policy of a broad and extended resort to armed might. (C-NF)



A major escalation of repression, especially if it involved the imposition of martial law, could well pose the question of who should lead the USSR. Currently there is much speculation in Moscow about martial law, the acquisition by Gorbachev of unrestrained power, coups, and military takeovers. Gorbachev might be inclined to adopt a broad view of his prerogatives as head of state, and perhaps even exercise limited emergency powers in an effort to advance *perestroika*. He would be willing to escalate coercion somewhat to maintain order and isolate nationalist or other "extremists." At the September 1989 plenum of the Central Committee he condemned "extremist rallies that provoke interethnic clashes and terrorize and intimidate people of other nationalities," and

declared that "where a threat to the safety and life of people arises, we will move decisively using the full force of Soviet laws." He also observed, with respect to Nagorno-Karabakh, that "we stand before the need to take resolute measures; we cannot allow anarchy, let alone bloodshed." (C-NF)

Yet it is highly doubtful that Gorbachev would abandon his reform program and his natural constituency by sanctioning indiscriminate violence, or engage in a bid to seize dictatorial power through an alliance with his political enemies. It is possible, however, that he might choose to resign rather than assume responsibility for a crackdown involving a major imposition of martial law. In his conversation with the Hungarians noted above, Gorbachev seemed to imply that he would have resigned rather than order force to be used against the strikers. And he appeared to be dropping a similar hint in a speech he delivered more recently in Leningrad. Naturally, he could also justify retaining office (if he were indeed inclined to resign) on "lesser evil" grounds. (C-NF)

In the event that Gorbachev remains in power, his resort to force is likely to be limited, and instability will not easily deflect processes that appear to be heading toward further democratization of the political order, some form of multipartyism, and a loosening (or, in the Baltic case, even a breakup) of the Soviet multinational empire—provided Gorbachev can avoid sharp political polarization and achieve some reinstitutionalization of political integration through the soviets. If there is financial stabilization and marketization, there might be high instability in the near term (two to five years) but a course could be set toward long-term (10 to 25 years) social equilibrium. Without financial stabilization and marketization (which are now in serious jeopardy), there would be rising instability in the near-to-medium term, high instability in the long term, and likely movement of the Soviet system toward revolution, a hard-right takeover, or what has been termed "Ottomanization"—a slow process of imperial decline with unplanned piecemeal emancipation of constituent entities in a context of growing relative backwardness of the whole in relation to the capitalist West. (C-NF)

~~Secret~~

2. (Continued)

~~Secret~~

The trend toward liberalization and imperial dissolution is perceived as a clear and present danger by some members of the Soviet political elite, who are shocked by what they perceive as a breakdown of social discipline and loss of regime control. Their anxiety, fear, and anger could still crystalize in an attempted coup, legal removal of Gorbachev, or even assassination. Judging by what is being said publicly by Gorbachev's critics in the apparat, as well as in intelligence reporting, a traditionalist restoration would not be simply a throwback to the Brezhnev regime. It would accept the need for significant change, including reductions in defense spending and decentralization of management, but would attempt to "draw the line" in many areas—especially democratization of the party and government, the media, the conduct of "informal" groups, and expression of "nationalist" views—in which Gorbachev's liberalism is seen as outrageous. Although the odds are high that a traditionalist regime would increase restrictions on private entrepreneurial activity and marketization, it is not altogether inconceivable—depending on who was in charge—that such a leadership might take advantage of limits on public expression to move forward vigorously with marketization. Barring this slim possibility, the prognosis for such a regime would be near-term stability but high medium- to long-term instability, leading to Ottomanization or upheaval from below. (C NF)

The length of Gorbachev's tenure is an important variable. In the event that he is not soon overthrown, his gambles on ethnic and political reform are likely to increase the social forces of resistance to an orthodox reaction. Such a development would correspondingly increase the degree of coercion required to "restore order." Those intent on such a course of action might seek to gain support from the military or KGB, or to mobilize elements of the working-class population to back their cause. Political maneuvering to develop and define a mass "workers" movement is already under way. Gorbachev is seeking to enlist the "workers" as a force for *perestroika*. Populist figures such as Boris Yel'tsin may seek to appeal to the welfare-state preferences of the working class. Reactionaries would espouse neofascist slogans designed to tap into the anti-intellectual, anti-Semitic, anticapitalist, xenophobic, Russian nationalist moods that also

exist among many "workers." A successful traditionalist or reactionary restoration, however, would solve neither the economic problems nor the nationality problems, and thus would perpetuate instability—repressed if not open. (C NF)

Implications for the United States

Under any scenario, economic tensions, acute consumer dissatisfaction, labor unrest, and ethnic strife virtually guarantee that the United States will have to deal with a Soviet leadership that faces endemic popular instability. The chances that economic reform will significantly reduce the potential for instability in the foreseeable future are low, and are certainly less than the chances that Gorbachev's own gambles will foster continuing economic stagnation or decline. Gorbachev will maneuver to dampen instability through compromise and to avoid armed confrontation and bloodshed. He may muddle through more successfully than appears likely. But the odds are great nevertheless that labor unrest or ethnic conflict will—perhaps even within the next six months—create strong pressures within the leadership to crack down much harder than it has to date. Gorbachev may well agree to more repression in order to retain power. It is likely, in this context, that an alternative leader would not only initiate more brutal repression than Gorbachev might, but would cite instability as the pretext for a general attack on Gorbachev's political reforms. (C NF)

Moscow's preoccupation with instability is likely for the foreseeable future—regardless of other factors—to prevent a return to the arsenal state economy that generated the fundamental military threat to the West in the period since World War II. The Soviet leadership's focus on internal order in the USSR will probably accelerate the decay of Communist systems and growth of regional instability in Eastern Europe, pointing to the need for post-Yalta arrangements of some kind and confronting the United States with severe foreign policy and strategic challenges. Instability in the USSR will increase uncertainty in the West about proper policies to pursue toward Moscow, reflecting nervousness about Soviet developments but nonchalance about defense, and will impose stress on domestic and alliance decisionmaking. (C NF)

~~Secret~~

2. (Continued)

~~Secret~~

To cope with the crises that promote instability, Gorbachev needs to transfer more resources from military to consumer needs. From a personal standpoint, he needs to defend himself against charges that he is selling out Soviet security interests and has been seduced by praise from the "class" enemy. Thus, he needs demonstrable results from the arms talks that will permit him to argue that the external "threat" has receded even further. Likewise, he needs trade and technology transfer from the West to overcome bottlenecks in the Soviet economy. Obviously, he does not need Western actions that call into question the efficacy of "New Thinking" in foreign policy, or that could be interpreted as challenging Soviet security interests globally, in Eastern Europe, or internally, or of "taking advantage" of Soviet internal instability. (C NF)

The chances that Gorbachev will successfully overcome the dilemmas (many of his own making) that confront him are—over the long term—doubtful at best. But the process of pluralistic forces taking root in Soviet society strengthens the rule of law, builds constraints on the exercise of power, and fosters resistance to any turnaround in military spending and to reinvigoration of an expansionist foreign policy—which, as argued above, will be strongly inhibited in any event by the insistent demands of consumption and the civilian sector. This process, and the deterrence of a militantly reactionary restoration that might attempt to bring about a basic shift in the Soviet Union's foreign posture, benefits greatly from each year's prolongation of Gorbachev's rule. (C NF)

A key weakness in Gorbachev's strategy that will perpetuate instability is its hesitant approach to marketization and its unwillingness to face up to the necessity of real privatization of ownership of capital stock and land. Soviet leaders from Gorbachev down are, at the moment, uniquely open to contact with the West. Serious private Western dialogue with them and their advisers on economic theory could influence their thinking. Reduction of instability over the long term requires the steady extension of a law-based private sector in the Soviet economy. (C NF)

Harsh repression of labor unrest or of food riots in Russian cities are certainly contingencies that could confront US policymakers with the need to respond. But instability provoked by Gorbachev's gambles is likely to present its severest challenge to US policymaking through a crackdown of some sort in the ethnic arena—probably not in response to communal violence, but in the form of intervention to suppress Russian/native clashes or the drive of non-Russians for greater autonomy. Such a crackdown is most likely in the Baltic region but could also come in the Caucasus, Moldavia, or—down the road—even the Ukraine. (C NF)

Gorbachev has said he wants to create a constitutionally structured federative union based on the consent of the constituent republics. Movement away from the heretofore existing situation toward such a goal would in general be positive from the US standpoint. However, Gorbachev is not interested in creating a framework for weak confederation or dissolution of the USSR, nor would he be able to marshal political support within the elite for such an outcome; yet this is precisely what acceptance of the more radical Baltic demands would imply. The new draft CPSU platform on nationality policy hints at the acceptability of a regionally differentiated approach to Soviet federalism. It is possible that Gorbachev may be prepared to broker a special status for the Baltic republics, and this could incorporate a potential for evolution toward still greater autonomy. A wide range of configurations of "autonomy" or "independence" is conceivable. In such a context the Soviets might be interested at some point in discussing with Washington their regional security concerns, which would probably bear heavily on such a decision. (C NF)

~~Secret~~

